

SMT Scharf AG

Annual financial report 2018

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Management report for the 2018 fiscal year

Economic environment

The SMT Scharf Group ("SMT Scharf ") develops, manufactures and services transportation equipment and logistics systems for underground mining and tunnel construction. The business profile of SMT Scharf can be described on the basis of the following criteria:

- **Business areas:** The core product of the SMT Scharf continues to be captivated railway systems that are deployed in underground mining. These systems are technically capable of transporting personnel and materials up to 45 tonnes on gradients of up to 35 degrees. As an ancillary product, SMT Scharf offers chairlifts for the mining industry. The product range also includes the development and installation of open air rail and cable management systems, including for energy supplies to machines, for example. With the acquisition of the Canadian mining specialist RDH Mining Equipment, SMT Scharf has expanded its portfolio to include rubber-wheeled vehicles, thereby advancing the implementation of its strategy to position itself in the market as an integrated system provider in the underground logistics area. The establishment of the Tunnel Logistics business segment also forms part of this process. This additional pillar promises additional sales potential in the coming years.
- **Type of business:** The production and installation of new equipment forms the core of the operating activities. SMT Scharf also concentrates on downstream services. The offerings include the provision of spare parts, maintenance, repairs or maintenance work. SMT Scharf occasionally acts as a railway operator in response to customer demand.
- **Customer groups:** SMT Scharf products are deployed mainly in hard coal mining (the Coal Mining segment), as well as increasingly in producing gold, platinum, copper, nickel (hard rock) and salts (aggregated within the Non-Coal Mining segment). With the establishment of the Tunnel Logistics business segment, tunnel construction companies are being added as a potential customer group.
- **Regions:** SMT Scharf sells its own products in its main markets through subsidiaries located in the world's most important mining nations. These especially include foreign markets in Russia, Poland, China, South Africa and, with the opening of its own sales subsidiary in Chile, increasingly also South America. With the addition of RDH Mining Equipment, SMT Scharf is also concentrating on the North American market. The German domestic mining market plays only a minor role nowadays. In smaller markets, SMT Scharf works together with dealers or agents.

The global economy grew by 3.7 % in 2018, thereby a little more slowly than in the previous year (3.8 %), according to preliminary data from the International Monetary Fund (IMF). The reasons given by the IMF for the decline are increasingly negative impulses in connection with global trade conflicts, particularly the trade dispute between the two largest economies in the world, the USA and China. Uncertainties also persist, for example in connection with Brexit. As a consequence of the deteriorating overall conditions and more stringent regulation of the financial sector, the Chinese economy's growth dynamic has slowed considerably. In Russia, by contrast, the economic recovery proceeded at a moderate level, based particularly on the temporary rise in oil prices in the first half of 2018. However, both the IMF and the World Bank have cut their growth forecasts for the country, partly due to the significantly lower oil prices for 2019 in the second half of the year. South Africa's long economic boom slipped into recession last year for the first time in many years. This reflects declining economic performance in the agricultural sector and a lower level of business investment. By contrast, Poland continues to rank among Europe's most dynamic markets. In the wake of the global economic slowdown, however, growth in the Polish economy also declined noticeably last year, but remains at a comparatively high level. The four

mentioned countries represent SMT Scharf's most important sales markets. Together, the customers that are situated there regularly account for more than 75 % of Group sales.

| GDP growth in the most important sales markets* (in %) | 2018 | 2017 |
|---|-------------|-------------|
| World | 3.7 | 3.7 |
| China | 6.6 | 6.8 |
| Poland** | 4.4 | 3.8 |
| Russia | 1.7 | 1.8 |
| South Africa | 0.8 | 0.9 |

Source: * IMF World Economic Outlook, January 2019 **IMF World Economic Outlook, October 2018

SMT Scharf limits the impact of foreign exchange risks through partial relocation of production and purchasing processes to the company's sales markets. Most new plants are still built in Germany, however. In addition, SMT Scharf has adapted its organisation to these influences and reduced the costs incurred by exchange rate effects in the reporting period by using hedging transactions. The four most important currencies of SMT Scharf AG reported some significant fluctuations in the period under review:

| Exchange rate changes in the most important sales markets* (in %) | 2018 | 2017 |
|--|-------------|-------------|
| Yuan Renminbi (China) / Euro | +0.5 | +7 |
| Zloty (Poland) / Euro | +3 | -5 |
| Rouble (Russia) / Euro | +15 | +8 |
| Rand (South Africa) / Euro | +18 | +3 |

*Source: European Central Bank, change during the year

In the past year, the weakness of the Rouble and the South African Rand against the Euro continued. As a consequence, the European currency regained purchasing power against these countries in 2018. For this reason, SMT Scharf products have become somewhat more expensive in these countries when converted into the respective domestic currency. The same applies to the Polish Zloty, which depreciated sharply. Here, the Euro appreciated by 3 % last year. This reverses the previous year's currency trend, when the Polish currency appreciated against the European single currency thanks to high economic growth.

Management and control system

SMT Scharf AG steers its business applying financial and non-financial performance indicators whose trends exert a positive influence on the company's value in different ways. Financial and non-financial performance indicators are monitored continuously, and included in monthly reporting to the Managing Board and in discussions with the Supervisory Board. Reporting is by subsidiary, and includes an analysis of actual outcomes, a budget/actual analysis, and year-on-year comparisons. SMT Scharf undertakes further specific analyses where required.

Financial and non-financial performance indicators for the SMT Scharf Group as well as current forward planning are presented in the following tables. The medium-term targets reflect the background assumption that the market environment continues to normalise, especially on the basis of stable or a further uptrend in raw materials prices. From the perspective of SMT Scharf AG as the management holding company, no specific financial or non-financial performance indicators exist.

Financial performance indicators:

| Key indicator | Calculation method | Target (medium-term, 3 – 5 years) |
|---|--|--|
| Key income statement figures | | |
| Consolidated sales revenue growth (organic and inorganic) | (Group revenue in reporting year / Group revenue in previous year) -1 | >5 % |
| Tunnel revenue share | Tunnel segment revenue / Group revenue | >10 % |
| EBIT margin | Earnings before interest and tax (EBIT) / Group revenue | >10 % |
| Cost of materials ratio | Cost of materials / total operating revenue | ~50 % |
| Key balance sheet indicators | | |
| Net working capital | Year-average current assets – Year-average liquid assets – Year-average current liabilities (excluding current financial liabilities) | EUR 20 million |
| Equity ratio (on reporting date) | Equity / total assets | >=30 % |
| Key efficiency figures | | |
| Net working capital intensity | Net working capital / Group revenue | <50 % |
| Days of sales outstanding | Number of days in reporting year * (Annual average trade receivables / Group revenue) | <150 days |

Non-financial performance indicators:

| Key indicator | Calculation method | Target (medium-term) |
|-------------------------|--|---------------------------------|
| Employee numbers | | |
| Employee turnover | Employee-related leavings (FTEs) / Annual average number of employees (FTEs) | <10 % |
| Sickness rate | Number of work days lost due to sickness / Planned working days | 5 % |

Personnel

SMT Scharf AG does not have its own operating business. It is the management holding company for companies in SMT Scharf Group. At the beginning of the year under review, the Managing Board of SMT Scharf AG had three members and one Chair. Since Mr. Oberhaus departed in March 2018, the Managing Board has consisted of just two members. In addition to the two members of the Managing Board, only two other employment contracts exist, as in the previous year.

Net assets, results of operations and financial position

Equity and particular legal relationships

On December 31, 2018, 4,570,523 ordinary bearer shares of SMT Scharf AG were issued in the form of no par value shares with a notional value of EUR 1 per share (previous year: 4,570,523). All shares have been fully paid up and grant the holders the same rights.

By resolution of the Annual General Meeting on May 23, 2018, Authorised Capital 2016 (EUR 1,680 thousand) was cancelled and the creation of Authorised Capital 2018 was approved, which entails corresponding amendments to the articles of incorporation.

The Managing Board, with Supervisory Board assent, can increase the subscribed capital on one or several occasions until May 22, 2023, by up to EUR 2,310 thousand against cash or non-cash capital contributions (Authorised Capital). Shareholders' subscription rights can be excluded in this context. The authorised capital was extended through to May 22, 2023, through a resolution passed by the Annual General Meeting of May 23, 2018. In addition, Conditional Capital 2018 exists up to EUR 462 thousand to issue a further up to 462,000 ordinary shares.

Furthermore, the previous authorisation to purchase and sell treasury shares was revoked and a new authorisation was granted by resolution of the Annual General Meeting on May 23, 2018. The authorisation makes provision whereby the acquisition of treasury shares is limited to 10 % of the share capital existing at the time of the resolution of the Annual General Meeting. The authorisation is valid until May 22, 2023.

The company held 49,477 treasury shares on December 31, 2018, equivalent to 1.07 % of the share capital. The treasury shares can be utilised for all of the purposes stated in the authorisation resolution.

The company is subject to general statutory restrictions on voting rights, in particular resulting from the German Stock Corporation Act (AktG) and the German Securities Trading Act (WpHG). The Managing Board is not aware of any restrictions on voting rights above and beyond the aforementioned, including any restrictions that could result from agreements between shareholders. In addition, the Managing Board is not aware of any restrictions relating to the transfer of the company's shares, including any restrictions resulting from agreements between shareholders.

The interest of the shareholders that held shares in SMT Scharf AG before the IPO fell below the 10 % voting rights threshold in January 2010, and these shareholders left the shareholder base fully in February 2010. Since then, only the overall pool arising from Shareholder Value Beteiligungen AG/Share Value Stiftung/Christiane Weispenning exceeds 10 % of the voting rights, whether directly or indirectly.

No shares exist with extraordinary rights that grant the holders controlling powers. The company is not aware of any interests held by employees who do not exercise their controlling rights directly. The Supervisory Board can implement changes to the articles of incorporation that affect only their wording. Otherwise, changes to the articles of incorporation require a resolution by the General Meeting in the meaning of Sections 133 and 179 of the German Stock Corporation Act (AktG), whereby pursuant to article 17 of the articles of incorporation, resolutions by the General Meeting are to be passed with a simple majority of votes cast, unless mandatory statutory requirements exist to the contrary, and – to the extent that the law prescribes a capital majority in addition to the majority of votes cast – with a simple majority of the share capital represented when the resolution is passed; this also applies to resolutions on amendments to the articles of incorporation.

Pursuant to section 8 of the articles of incorporation, the company's Managing Board comprises one or several members, including in the event that the share capital exceeds EUR 3.0 million,

whereby the Supervisory Board determines the number of members of the Managing Board, and can appoint a Chair (CEO) as well as a Deputy Chair (Deputy CEO) of the Managing Board, and also deputy Managing Board members. In all other respects, the statutory regulations apply to the appointment and discharge of Managing Board members. The company has not concluded any key agreements that are subject to the condition of a change in control as a result of an acquisition offer.

Net assets:

This is subscribed share capital of SMT Scharf AG amounts to EUR 4,620 thousand. At the end of the reporting period, TEUR 49 was attributable to treasury shares, as a consequence of which the amount carried in the balance sheet stood at TEUR 4,571. To this is added the share premium account in an amount of EUR 16,985 thousand. Equity including the net profit for the year as well as treasury shares amounts to EUR 22,708 thousand as of December 31, 2018 (previous year: EUR 21,293 thousand). This corresponds to 67 % of total assets (previous year: 90 %). Assets primarily comprise participating interests in and receivables due from companies in the SMT Scharf Group.

Results of operations:

SMT Scharf AG achieved earnings of EUR 1,414 thousand in 2018 (previous year: loss of EUR - 442 thousand).

Financial position:

Cash and cash equivalents reduced to EUR 555 thousand (previous year: EUR 6,194 thousand). The company's financial management aims to secure financial flexibility and achieve capital cost optimisation.

Capital expenditure:

Due to the acquisition of RDH Mining Equipment Ltd. as of February 6, 2018, the payment into the joint venture Shanxi An'de Auxiliary Transportation Co., Ltd., and loans and loan repayments within the SMT Group, financial assets changed from EUR 15.5 million to EUR 22.1 million.

SMT Scharf's stable asset and financial situation means that it is well positioned to face further challenges in the coming fiscal years.

Corporate governance declaration

Corporate governance declaration pursuant to Section 161 of the German Stock Corporation Act (AktG)

The current corporate governance declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) is available on the SMT Scharf Group's website (www.smtscharf.com) under "Other Publications".

Working approach of the Managing and Supervisory Boards:

The boards of SMT Scharf AG see their central task as managing the company in a responsible and value-oriented manner. The following principles apply in this regard:

The Supervisory Board has three members, elected as shareholder representatives by the General Meeting of Shareholders. The Supervisory Board does not include any former Managing

Board members. It has not formed any committees. The Supervisory Board advises and consults with the Managing Board, and supervises the latter's management of the business. It concerns itself with business development and growth, medium-term forecasts and the further development of the company's strategy. It adopts the annual separate and consolidated financial statements, taking the auditors' reports into account. It also appoints and dismisses the members of the Managing Board. Selected Managing Board transactions as listed in its rules of business procedure require prior Supervisory Board approval. The Supervisory Board can implement changes to the articles of incorporation affecting solely their wording. The members of the Supervisory Board are obligated to disclose any conflicts of interest to the Supervisory Board. No conflicts of interest existed in relation to Supervisory Board members of SMT Scharf AG during the year under review.

The composition of the Supervisory Board is very diverse. In addition to its members' professional qualifications and industry background, the Supervisory Board members have various other important areas of expertise. This promotes the diversity of points of view in the internal discussion. Adequate staffing with female members is also desired and taken into account. The Supervisory Board has set a 0 % target for the proportion at the first management level (Managing Board) and at 19 % for the management level below that (general managers of the subsidiaries and authorised signatories). For the Supervisory Board, the target for the proportion of women has been set at 33.3 %. Since the first management level and the Supervisory Board comply with the current quotas, these targets were already achieved when they were set.

In order to ensure the auditor's independence, the Supervisory Board obtains a declaration from the auditor in relation to existing reasons for exclusion or bias. When issuing the audit mandate, it is agreed that the auditor is to inform the Supervisory Board without delay of any possible reasons for exclusion or bias that arise during the audit, about all findings that are material for the Supervisory Board's tasks that arise during the audit, and about all findings that result in the declaration on the German Corporate Governance Code as issued by the Managing and Supervisory boards being incorrect. No such facts or reasons for exclusion or bias were ascertained in the past fiscal year.

At the beginning of the year under review, the Managing Board of SMT Scharf AG had three members and one Chair. Since Mr. Oberhaus departed in March 2018, the Managing Board has consisted of just two members. The board has not formed any committees. The Managing Board's members are jointly responsible for managing the company's business, based on rules of business procedure as issued by the Supervisory Board. The Managing Board determines business targets, the company's policy and the Group's organisation. The Managing Board informs the Supervisory Board regularly, promptly and comprehensively about all questions of relevance for the company relating to planning, business development and risk management. Transactions requiring Supervisory Board approval are submitted in good time to the Supervisory Board. The Managing Board members are obligated to disclose conflicts of interest to the Supervisory Board without delay, and to only assume additional activities, especially supervisory board mandates at companies outside the Group, with Supervisory Board approval. No conflicts of interest existed in relation to the members of the Managing Board of SMT Scharf AG during the past fiscal year.

The Managing Board regularly provides shareholders, all other capital market participants, and the media with up-to-date information on the company's business growth. The financial calendar provides a summary of current financial reporting dates. The financial calendar as well as current financial reports and ad hoc disclosures are available on the Internet at www.smtscharf.com under the Investor Relations heading.

Remuneration systems for the Managing and Supervisory boards

The Supervisory Board's remuneration scheme was last supplemented by way of a resolution by the Annual General Meeting on May 23, 2018, based on the articles of incorporation of SMT Scharf AG. The Supervisory Board members receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses, as well as meeting fees of EUR 1 thousand per Supervisory Board meeting, with the Supervisory Board Chair receiving twice the meeting fee per meeting. The fixed remuneration totals EUR 18 thousand, and the Chair receives twice this amount. In addition, each member of the Supervisory Board receives variable compensation in the form of a share in the consolidated net profit, calculated as follows: the annual performance-related compensation corresponds to an amount calculated by multiplying a bonus factor of 0.4 % (or 0.8 % for the Supervisory Board Chair) by the residual profit. The consolidated net profit of the SMT Scharf Group less interest on equity is regarded as the residual profit, whereby the interest rate corresponds to the applicable base interest rate plus 2 percentage points. The consolidated result is determined on the basis of the IFRS consolidated financial statements for the financial year in question, which have been audited by the auditor and approved by the Supervisory Board. If a member of the Supervisory Board can prove on the day before the Annual General Meeting that approves the appropriation of profits that he or she holds shares in the company cumulatively in the amount of one third (the purchase price being the decisive factor to this extent) of the respective fixed remuneration per year of his or her membership in the Supervisory Board, the bonus factor for the (basic) member of the Supervisory Board providing proof of investment increases to 0.8 % and for the Supervisory Board Chair to 1.6 %. The variable remuneration amounts to a maximum of EUR 9 thousand (without personal investment) or EUR 12 thousand (with personal investment) per ordinary member of the Supervisory Board and EUR 18 thousand (without personal investment) or EUR 24 thousand (with personal investment) for the Supervisory Board Chair. Remuneration is paid pro rata if members leave the Supervisory Board during the course of the fiscal year. No emoluments or pension obligations were rendered for former members of the Supervisory Board or their surviving dependents in the year under review

Decisions about the Managing Board's remuneration fall within the Supervisory Board's scope of responsibility. Managing Board members receive remuneration comprising a fixed basic annual salary and an annual bonus. The fixed basic remuneration is paid monthly. The members also receive non-cash benefits from the private use of company cars, life insurance cover and reimbursement of out-of-pocket expenses. The main proportion of the bonuses is measured on the basis of the level of consolidated net profit and The Managing Board members' contracts also include variable remuneration based on the share price performance and sales revenue trends. Accordingly, a share price increase of one Euro in each case is compensated with a contractually predetermined agreed amount. The sales revenue trend (taking 2014 as the basis year) is calculated based on accumulated consolidated sales revenue, with every EUR 1 million being compensated with a certain contractually agreed amount. Both the individual bonus components and total remuneration are capped. The Supervisory Board reviews the remuneration at regular intervals to ensure that it is suitable and in line with market remuneration levels. Pension obligations exist only for members of the Managing Board arising from the conversion of salary components. The company regulations for the conversion of salaries up to and including the 2007 fiscal year provide for a fixed upper age limit of 65 years, and 6.0 % interest on converted salary components. The age limit has been adjusted to annual changes in Germany's statutory pensionable age from 2008 on, with interest now set at 4.5 %. No agreements exist for remuneration in the event of a takeover bid. The above regulations for the remuneration of members of the Managing Board have been agreed in the corresponding employment contracts. The remuneration of former members of the Managing Board or their surviving dependants in the year under review includes pensions and the remuneration of Mr. Oberhaus from March 2018.

Details on the remuneration and shareholdings of individual members of the Supervisory and Managing boards can be found in the notes to the consolidated financial statements.

Risk report

SMT Scharf operates a **risk management system (RMS)** that is fully integrated into the company's planning, management and control processes. As a consequence, the RMS forms a central component of value-oriented corporate management, and serves the targeted securing of both existing and future success and profitability potentials. The risk management system is aimed at the early identification of opportunities and risks for the purpose of initiating appropriate precautionary and securing measures without delay which are then subject to ongoing monitoring.

Risk management is based mainly on internal regulations set out in the form of guidelines and implemented in the process of corporate management and supervision. Key elements in this process include strategic and operational forecasting, the preparation of weekly, monthly and quarterly reports for the Managing Board, and preparing for investment decisions. Ongoing reporting serves the purpose of business performance management Groupwide as well as ongoing monitoring and communication about opportunities and risks. Risks arising short-term are communicated immediately and by direct routes to those organisational units responsible for the early identification, management and communication of the respective risks. Risk management officers within these organisational units have the task of coordinating the risk measures and ensuring risk communication to the relevant higher levels.

The **internal controlling system (ICS)** forms an integral element of risk management at SMT Scharf. The main objective of the ICS is to ensure that all business transactions are accurately reflected in the reporting. This is intended to prevent deviations from internal or external regulations. In terms of external financial accounting and reporting, this primarily entails ensuring financial statements conform to applicable accounting standards. To this end, the internal controlling system and risk management function is organised in line with accounting units. Standard financial accounting regulations are applied within the SMT Scharf Group, and compliance with these regulations is monitored on an ongoing basis. In some cases, recourse is made to external specialists to manage specific accounting risks, such as in the case of actuarial valuations.

A **Compliance Management System (CMS)** has been successfully installed in the company. This is intended to detect and prevent potential rule violations in good time. The CMS is instrumental in uniformly defining appropriate responses to compliance issues for all group companies and of communicating these issues. SMT Scharf has appointed an external compliance officer to monitor compliance management within the Group.

The **primary risks** for SMT Scharf AG relate to changes in the underlying legal framework in the countries where it operates through its subsidiaries. Capital controls, changes in disposal rights for equity interests or tax law can negatively affect the possibility to control the companies in SMT Scharf Group. Changes of government, changes in mine ownership structures or other factors can have a major impact on subsidiaries' earnings. The Managing Board counters these risks by constantly monitoring the markets and their underlying political conditions. SMT Scharf AG currently only deploys financial instruments to invest liquid funds on a short-term basis and to hedge against exchange-rate risks; as a result no material risks from the deployment of financial instruments exist.

Report on opportunities

Positive effects of strategic measures

The extensive list of measures contained in the three strategic action areas of "Organic Growth", "External Growth" and "Operative Excellence" aims to make SMT Scharf even more productive and more competitive overall. It enables SMT Scharf to respond to the anticipated upturn within the sector environment from a stronger position and to benefit from the upswing in the mining industry. SMT Scharf is tapping new markets and customer groups through further developing the company to become a system supplier of logistics solutions in underground mining and for tunnel construction sites. This policy is creating additional potential to generate sales revenues.

Global economic growth

In the medium term, the manufacturing industry in emerging economies and industrialised nations will have a stronger demand for raw materials energy driving continued economic growth forward. Following the end of the last supercycle and in the wake of recovery, a stabilisation of commodity prices is now identifiable, which should make production profitable again for mining operators. The positive course of business in the period under review, which is accompanied by a revival in the sector economy, confirms the assessment of the Managing Board of SMT Scharf AG that postponed or cancelled investments in mining infrastructure will increasingly be made up for in the upswing phase that it is now increasingly stabilising. This is evident in the continued upturn in demand for mining equipment, which is expected to lead to further revenue growth for SMT Scharf.

Higher demand on local markets

After the current realignment of the Chinese economy and the continued benign climate in its domestic economy, SMT Scharf assumes that Chinese mines will return to producing more coal and other raw materials to serve the domestic economy's high demand for resources – including in the case of reduced growth momentum. Although the increase in worldwide demand for coal will slow, it will continue to rise in absolute terms. China will remain the world's largest consumer of coal in 2035 according to forecasts by BP. Around a half of global consumption is attributable to the country. At the same time, the share of demand from India will almost double by this date. Along with oil and gas, coal will remain one of the most important energy sources in the future, despite the increasing use of regenerative energies. All three energy types together will cover around 75 % of global energy supplies in 2035, according to estimates.

Reducing the investment backlog in mines

Mining groups neglected their mines' productivity in recent years due to the difficult market environment. According to SMT Scharf's assessment, the investment backlog that has meanwhile arisen is increasingly being unwound. In the short term, the global economy will continue to grow, albeit at a slower pace. This is stimulating demand for coal and other raw materials, so that mine operators have incentives to continue to invest more in new equipment.

Trend towards Mining 2.0

Against the background of dynamically advancing digitalisation, operators of mines and production sites worldwide are becoming increasingly interested in innovations in all areas of mining equipment and technology, as well as in optimising the efficiency of their processes and organisational structures. Automation and data management form the focus of the mining companies. One trend in underground mining is the integration of machines into mine operators'

networks. Mining companies desire information about drivers, oil levels and underground temperatures. Such direct data transfer will help to improve maintenance and work processes in underground mining in the future. SMT Scharf identifies attractive growth prospects in Mining 2.0 thanks to its expertise in electrical engineering, control, measurement technology, electrification and data management.

More complex geological locations of raw materials deposits

In the medium term, mining raw materials deposits worldwide will occur in increasingly inaccessible locations. This gives the mining industry a growing incentive to deploy SMT Scharf products. Along with greater cost-efficiency, such products offer the benefit of being especially developed for demanding underground conditions, and have already proved themselves in the German hard coal mining industry.

Diversification advanced

SMT Scharf is expanding its non-coal mining segment, which is to grow to become a segment equivalent to that of the coal segment in the medium to long term. Deploying rail transportation and logistics systems in platinum, gold and copper mines will increase, and consequently exert a positive effect on the sales revenue contribution from this business. Through establishing new subsidiaries, SMT Scharf is positioning itself closer to its customers in this industrial segment through expanding sales activities into new regions of the world such as the Andes. Above and beyond this, salt deposits also offer opportunities to deploy SMT Scharf products.

Attractive growth opportunities in the coming year arise from the takeover of Canadian RDH Mining Equipment, which was completed in the fiscal year under review. RHD is a leading provider of battery-driven vehicles for mining and tunnel construction. The combination of SMT Scharf's international sales and after-sales expertise and the new product program will enable the company to leverage further synergies in the international hard rock and tunnel market. SMT Scharf anticipates positive effects on its sales revenue and earnings trend in the current fiscal year and in the future.

Moreover, the new tunnel logistics segment promises the potential for significant sales revenues in the medium term, and the opportunity of becoming less dependent on the raw materials price cycle, as demand for infrastructure is driven by other factors such as growing population density in conurbation centres worldwide.

Summary of the opportunities and risk position

An overall assessment of the company's opportunities and risk position has shown that the identified risks, taking into account the measures taken and planned, do not – either individually or in combination with each other – have any impact on the SMT Scharf Group that could jeopardise it as a going concern. No absolute certainty exists, however, that all relevant risks can be identified and controlled.

Outlook

According to the International Monetary Fund (IMF), the global economy will continue to lose momentum in 2019. Economists point to global trade conflicts, such as the trade dispute between the US and China, and the weaker performance of some economies, particularly in Europe and Asia, which is leading to a slowdown in the overall global economy. At the start of 2019, the IMF forecasts the following GDP growth rates in SMT Scharf's target markets.

**GDP growth in the most important sales markets
for SMT Scharf AG* (in %)**

| | 2019e | 2018 |
|--------------|--------------|-------------|
| World | 3.5 | 3.7 |
| China | 6.2 | 6.6 |
| Poland** | 3.5 | 4.4 |
| Russia | 1.6 | 1.7 |
| South Africa | 1.4 | 0.8 |

Sources: * IMF World Economic Outlook Update, January 2019 **IMF World Economic Outlook, October 2018

SMT Scharf will continue to concentrate on the core markets of China, Russia, Poland and South Africa. In addition, the acquired company RDH Mining Equipment will focus on the North American market. For 2019, the IMF expects that economic growth in China, Russia and Poland will slow slightly. With forecast GDP growth of 1.4 %, however, the economy in South Africa is expected to gain considerable momentum compared with the previous year.

Given the signals that can be observed in the market, the Managing Board assumes for 2019 that the sector environment and improved conditions in the mining equipment market will continue to open up the growth opportunities for the SMT Scharf Group in the current fiscal year. For the 2019 fiscal year, the Managing Board of SMT Scharf anticipates consolidated revenue in a range between EUR 72 million and EUR 75 million. Following the acquisition of Canadian mining specialist RDH Mining Equipment, the goal is to advance the technical integration of RDH in 2019. The financial and sales integration was successfully completed in 2018. With the complete takeover of RDH, the leading supplier of battery-powered vehicles with lithium-ion technology for underground mining, the foundation is to be laid to leverage far-reaching synergies in the international hard rock and tunnel market in the coming years. Furthermore, the Managing Board forecasts 2019 EBIT in a range between EUR 5.5 million and EUR 6.0 million.

The Tunnel segment is still in the phase of being established, so that the company continues to expect that it will not yet deliver any significant revenues in 2019. For this reason, the Managing Board does not anticipate major revenue growth in this segment until the medium term.

In terms of the cost of materials ratio (based on total operating revenue), a figure at the previous year's level is anticipated, although it will continue to lie above the medium-term target of 50.0 %. Net working capital for 2019 is expected below the previous year's level, assuming a further slight improvement in net working capital intensity in relation to revenue. Days of sales outstanding in 2019 are to lie slightly above the medium-term target of 150 days. An equity ratio at the previous year's level is also anticipated for 2019. The medium-term tolerance threshold for the equity ratio between 30 % and 40 % (target level $\geq 30\%$) is subject to the background assumption of exploiting further opportunities in the area of external growth over the coming years, and of potentially financing such transactions with debt.

Medium- to long-term, the management expects further improvements in the worldwide market for mining equipment. The trough in mining has been traversed for the time being. Due to consolidation in China, this especially relates to Chinese mine operators that need to optimise infrastructure and invest in innovative transportation logistics. Over the coming years, the management expects rising demand for electric vehicles for deployment in underground mining. In this context, SMT Scharf regards itself as well positioned to exploit future growth opportunities thanks to the newly acquired battery and electrical expertise at RDH. SMT Scharf's expertise as an integrated system supplier also enables the Group to retrofit electric vehicles for coal mining purposes.

Commodity production will increase thanks to the long-term sustainable expansion of the global economy. Against the backdrop of increasing trade policy conflicts and a turnaround in international capital flows, economic expansion in emerging markets has slowed. In the long term, prosperity in these countries will continue to rise. This is accompanied by sustainable growth in demand for energy. International Energy Agency (IEA) experts forecast a significant increase by 2040 in the share that renewable energies will contribute to achieve the international climate

targets agreed in Paris. At the same time, this will boost demand for economically strategic raw materials such as lithium, cobalt and rare earths, which will boost mining.

In addition, demand for coal in China remains the greatest by far in terms of absolute figures, although it is also declining further. Coal is expected to account for around 45 % share of China's energy mix by 2040. In order to diversify to a greater extent and further reduce dependency on coal mine operators, SMT Scharf will endeavour to ensure that its business with hard rock mine operators as well as tunnel logistics develops into second and third business pillars in the medium to long term. As part of its corporate strategy, the company will continue to focus in the future on operative excellence, as well as on both external growth and organic growth, in order to further strengthen SMT Scharf's market position. Potential direct effects from Brexit are not expected. Indirect effects on the global economy from Brexit, American-Chinese trade disputes with possible punitive tariffs or other exogenous areas of influence are currently not envisaged based on low probabilities.

Hamm, March 27, 2019

The Managing Board

Hans Joachim Theiss

Wolfgang Embert

Balance sheet as of December 31, 2018

| Assets (in EUR) | 31/12/2018 | 31/12/2017 |
|--|----------------------|----------------------|
| A. Non-current assets | | |
| I. Property, plant and equipment | 5,033.50 | 10,009.43 |
| Property, plant and equipment | 5,033.50 | 10,009.43 |
| II. Financial assets | 22,109,248.54 | 15,535,867.62 |
| 1. Interests in affiliated companies | 19,160,752.08 | 13,658,120.42 |
| 2. Loans to affiliated companies | 2,439,820.54 | 1,877,747.20 |
| 3. Participating interests | 508,675.25 | 0.00 |
| | 22,114,282.04 | 15,545,877.05 |
| B. Current assets | | |
| I. Receivables and other assets | 11,084,149.34 | 1,919,621.04 |
| 1. Receivables due from affiliated companies | 10,522,882.15 | 1,356,086.05 |
| 2. Other current assets | 561,267.19 | 563,534.99 |
| II. Cash and cash equivalents | 554,681.86 | 6,194,124.93 |
| | 11,638,831.20 | 8,113,745.97 |
| C. Deferred tax assets | 5,970.00 | 5,692.00 |
| Total assets | 33,759,083.24 | 23,665,315.02 |
| Equity and liabilities (in EUR) | 31/12/2018 | 31/12/2017 |
| A. Equity | | |
| I. Subscribed capital | 4,570,523.00 | 4,570,523.00 |
| Total nominal value | 4,620,000.00 | 4,620,000.00 |
| Nominal value of treasury shares | 49,477.00 | 49,477.00 |
| (Conditional capital: 462,000.00; previous year: 2,100,000.00) | | |
| II. Share premium | 16,984,646.99 | 16,984,646.99 |
| III. Retained earnings | 103,093.70 | 103,093.70 |
| 1. Statutory reserve | 1,648.70 | 1,648.70 |
| 2. Other retained earnings | 101,445.00 | 101,445.00 |
| IV. Unappropriated net profit/loss | 1,049,295.34 | -365,198.03 |
| | 22,707,559.03 | 21,293,065.66 |
| B. Provisions | | |
| 1. Pension provisions | 256,214.17 | 191,614.00 |
| 2. Tax provisions | 72,918.04 | 0.00 |
| 3. Other provisions | 993,363.17 | 704,793.54 |
| | 1,322,495.38 | 896,407.54 |
| C. Liabilities | | |
| 1. Liabilities to banks | 8,548,360.00 | 375,000.00 |
| 2. Trade payables | 151,524.03 | 188,392.78 |
| 3. Liabilities to affiliated companies | 321,793.13 | 884,343.37 |
| 4. Other liabilities | 707,351.67 | 27,199.42 |
| of which from tax: 21,561.80 (previous year: 24,987.47) | | |
| | 9,729,028.83 | 1,474,935.57 |
| D. Accruals and deferred income | 0.00 | 906.25 |
| Total equity and liabilities | 33,759,083.24 | 23,665,315.02 |

Income statement for the period from January 1 to December 31, 2018

| EUR | 2018 | 2017 |
|--|---------------------|--------------------|
| 1. Revenue | 1,071,792.11 | 599,113.48 |
| 2. Other operating income of which from currency translation: 39,923.47 (previous year: 12,510.12) | 129,583.78 | 116,455.31 |
| 3. Personnel expenses | | |
| a) Wages and salaries | 1,302,551.64 | 1,203,728.75 |
| b) Social security contributions of which for pensions: 21,624.00 (previous year: 19,340.96) | 82,337.10 | 79,921.39 |
| 4. Depreciation, amortisation and impairment losses | 4,975.93 | 8,222.14 |
| 5. Other operating expenses of which from currency translation: 27,087.86 (previous year: 40,033.64) | 1,569,124.85 | 1,549,976.45 |
| 6. Income from participating interests of which from affiliated companies: 562,886.46 (previous year: 1,000,064.36) | 562,886.46 | 1,000,064.36 |
| 7. Income from profit transfer agreements of which from affiliated companies: 2,572,992.45 (previous year: 653,970.83) | 2,572,992.45 | 653,970.83 |
| 8. Other interest and similar income of which from affiliated companies: 266,702.25 (previous year: 56,985.65) | 266,702.25 | 56,985.65 |
| 9. Other interest and similar expenses | 152,858.13 | 6,367.99 |
| 10. Profit before tax | 1,490,818.40 | -421,627.09 |
| 11. Taxes on income | 72,918.04 | 0.00 |
| 12. Earnings after tax | 1,417,900.36 | -421,627.09 |
| 13. Other taxes | 4,697.99 | 0.00 |
| 14. Net income/loss for the year | 1,414,493.37 | -421,627.09 |
| 15. Profit/loss carried forward | -365,198.03 | 56,429.06 |
| 16. Unappropriated net profit/loss | 1,049,295.34 | -365,198.03 |

Notes to the financial statements for the 2018 fiscal year

Accounting and valuation policies

These annual financial statements have been prepared pursuant to the relevant regulations contained in Sections 242 et seq., 264 et seq. of the German Commercial Code (HGB) in the version contained in the German Accounting Guidelines Implementation Act (BilRUG). The company classifies as a large corporation pursuant to Section 267 (3) Clause 2 HGB. SMT Scharf AG has its registered offices in Hamm and is entered into the commercial register at the District Court of Hamm under Number HRB 5845.

The income statement is structured according to the nature of expense method.

Measurement is performed on the basis of German commercial law valuation regulations applicable for incorporated firms, taking into account the going concern assumption. The accounting and valuation policies applied to the previous annual financial statements were retained unchanged.

Figures in the notes to the financial statements are presented in thousands of euros, unless stated otherwise.

The following specific accounting policies are applied:

Property, plant and equipment is measured at cost less depreciation based on useful lives of between 3 and 5 years. Impairment losses are applied where required. The assets' depreciation rates are determined on the basis of their normal useful operating lives. The straight-line depreciation method is applied to the assets in this context.

Interests in affiliated companies as well as participating interests are carried at acquisition cost including incidental acquisition costs, or at fair value, whichever is lower. Loans were recognised at the lower of nominal value or fair value.

Receivables and other assets as well as deposits at banks are recognised at nominal value. Individual valuation allowances are applied to receivables to reflect identifiable risks.

Deferred taxes are calculated for temporal differences between the commercial law and fiscal valuations of assets, liabilities, and deferred and accrued items. Deferred taxes are measured on the basis of the income tax rate of SMT Scharf AG, Hamm, of currently 32.1 %, and includes trade and corporation tax. Any resultant net tax charge would be recognised on the balance sheet as a deferred tax liability. No use is made of the option to capitalise any tax reliefs. As in the previous year, in the fiscal year under review a net deferred tax asset arose that was not recognised on the balance sheet.

Prepayments recognised under prepayments and accrued income on the assets side of the balance sheet relate to expenditures before the balance sheet date representing expenses for a particular period after this date. This item is released straight-line as it is consumed over time.

Business transactions denominated in foreign currencies are recognised applying the exchange rate on the origination date. Foreign currency items with a remaining term of more than one year are translated applying the mid foreign currency cash rate on the reporting date, and in accordance with the purchase cost and realisation principle. Given a shorter term, translation is applied at the cash mid rate on the balance sheet date, as a matter of principle.

Treasury shares are presented as a separate item of subscribed share capital, based on their notional interest in the nominal share capital.

Provisions are recognised at the level of the amount required to satisfy the related liability on the basis of prudent commercial judgement.

Pension provisions were measured in accordance with recognised actuarial principles applying the projected unit credit method and based on the "Richttafeln 2018G" mortality tables. Calculations applied the average market interest rate for the last ten years (the Bundesbank rate of interest), which amounts to 3.21 % per annum as of December 31, 2018, assuming a remaining 15-year term. The calculation imputes a pension increase rate of 1.0 % per annum. The difference pursuant to Section 253 (6) of the German Commercial Code (HGB) amounts to EUR 32 thousand as of December 31, 2018, which is subject to the block on being paid out as a distribution.

The other provisions take all identifiable risks and contingent liabilities into appropriate account.

Liabilities are recognised at their settlement amount.

Notes to the balance sheet

The schedule of changes in non-current assets is presented below:

| | 01/01/2018 | Additions | Disposals | 31/12/2018 |
|--|----------------------|---------------------|---------------------|----------------------|
| 1. Other equipment, operating and office equipment | 29,566.68 | 0.00 | 0.00 | 29,566.68 |
| I. Property, plant and equipment | 29,566.68 | 0.00 | 0.00 | 29,566.68 |
| 1. Interests in affiliated interests | 14,496,099.07 | 5,502,631.66 | 757,440.85 | 19,241,289.88 |
| 2. Loans to affiliated interests | 1,877,747.20 | 1,114,720.12 | 552,646.78 | 2,439,820.54 |
| 3. Participating interests | 0.00 | 508,675.92 | 0.00 | 508,675.92 |
| II. Financial assets | 16,373,846.27 | 7,126,027.70 | 1,310,087.63 | 22,189,786.34 |
| Total | 16,403,412.95 | 7,126,027.70 | 1,310,087.63 | 22,219,353.02 |

| | 01/01/2018 | Additions | Disposals | 31/12/2018 |
|--|-------------------|-----------------|-------------------|-------------------|
| 1. Other equipment, operating and office equipment | 19,557.25 | 4,975.93 | 0.00 | 24,533.18 |
| I. Property, plant and equipment | 19,557.25 | 4,975.93 | 0.00 | 24,533.18 |
| 1. Interests in affiliated interests | 837,978.65 | 0.00 | 757,440.85 | 80,537.80 |
| 2. Loans to affiliated interests | 0.00 | 0.00 | 0.00 | 0.00 |
| 3. Participating interests | 0.00 | 0.00 | 0.00 | 0.00 |
| II. Financial assets | 837,978.65 | 0.00 | 757,440.85 | 80,537.80 |
| Total | 857,535.90 | 4,975.93 | 757,440.85 | 105,070.98 |

Receivables from affiliated companies include, in particular, receivables from loans to SMT Scharf GmbH, from group allocations and receivables from profit and loss transfer agreements with SMT Scharf GmbH and Nowilan GmbH. Other assets include VAT receivables of EUR 561 thousand (previous year: EUR 553 thousand).

SMT Scharf AG report no deferred tax as of December 31, 2018 (previous year: EUR 0 thousand). Deferred tax assets derive almost exclusively from loss carryforwards. Of the existing loss carryforwards (EUR 4,662 thousand or EUR 4,660 thousand for corporation tax or trade tax; previous year: EUR 6,663 thousand and EUR 5,609 thousand respectively), the calculation of deferred taxes includes loss carryforwards that the company expects to use in the next five years (EUR 329 thousand; previous year: EUR 460 thousand). Deferred tax liabilities in the amount of EUR 659 thousand derive primarily from temporary differences from the capitalisation of development costs at the level of the subsidiary SMT Scharf GmbH, Hamm. As in the previous year, measurement was applied at the 32.1 % tax rate for corporation and trade tax valid for the fiscal year under review. The notional resultant tax relief of EUR 1,048 thousand (previous year: EUR 1,023 thousand) was not capitalised by applying the option available under Section 274 of the German Commercial Code (HGB).

On December 31, 2018, 4,570,523 ordinary bearer shares of SMT Scharf AG were issued in the form of no par value shares with a notional value of EUR 1 per share (previous year: 4,570,523). All shares have been fully paid up and grant the holders the same rights. The changes in the fiscal year under review can be viewed in the statement of changes in equity.

By resolution of the Annual General Meeting on May 23, 2018, Authorised Capital 2016 (EUR 1,680 thousand) was cancelled and the creation of Authorised Capital 2018 was approved, which entails corresponding amendments to the articles of incorporation.

The Managing Board, with Supervisory Board assent, can increase the subscribed capital on one or several occasions until May 22, 2023, by up to EUR 310 thousand against cash or non-cash capital contributions (Authorised Capital). Shareholders' subscription rights can be excluded in this context. Authorised Capital was extended through to May 22, 2023, through a resolution passed by the Annual General Meeting of May 23, 2018. In addition, Conditional Capital 2018 exists up to EUR 462 thousand to issue a further up to 462,000 ordinary shares.

Furthermore, the previous authorisation to purchase and sell treasury shares was revoked and a new authorisation was granted by resolution of the Annual General Meeting on May 23, 2018. The authorisation makes provision whereby the acquisition of treasury shares is limited to 10 % of the share capital existing at the time of the resolution of the Annual General Meeting. The authorisation is valid until May 22, 2023.

The company held 49,477 treasury shares on December 31, 2018, equivalent to 1.07 % of the share capital. The treasury shares can be utilised for all of the purposes stated in the authorisation resolution.

The annual financial statements of SMT Scharf AG, which are prepared in accordance with the principles of the German Commercial Code (HGB), disclose an unappropriated net profit of EUR 1,049 thousand. The Managing and Supervisory boards will propose to the Ordinary AGM to be held on May 21, 2019, that it carries this unappropriated net profit forward to a new account.

Shareholder structure

A total of 59.02 % of the shares of SMT Scharf AG comprise its free float, according to the Deutsche Börse definition. This includes all interests below 5 % except treasury shares. Based on voting rights notifications submitted to the company pursuant to the German Securities Trading Act (WpHG), the following shareholder structure was derived as of December 31, 2018:

| | | |
|--|---------|----------------|
| Shareholder pool: Shareholder Value Beteiligungen AG/Share Value Stiftung/Christiane Weispfennig | 21.07 % | 973,616 shares |
| Investmentgesellschaft mit variablem Kapital (SICAV) | 5.62 % | 259,526 shares |
| Axxion S.A. | 5.06 % | 233,896 shares |
| Overseas Asset Management (Cayman), Ltd. | 4.88 % | 225,301 shares |
| Hauck & Aufhäuser Fund Services S.A. | 3.28 % | 151,594 shares |

The holding of treasury shares amounts to 1.07 % (49,477 shares). As of December 31, 2018, Hans Joachim Theiss, Management Board Chairman (CEO), held a total of 10,000 shares, and Wolfgang Embert 1,000 shares.

Provisions reported the following changes in the fiscal year:

| | Pension provisions | Tax provisions | Other personnel provisions | Miscellaneous other provisions |
|---------------------------|---------------------------|-----------------------|-----------------------------------|---------------------------------------|
| Balance January 1, 2018 | 192 | 0 | 420 | 285 |
| Consumption | 11 | 0 | 321 | 245 |
| Additions | 75 | 73 | 536 | 407 |
| Reversals | 0 | 0 | 12 | 4 |
| Balance December 31, 2018 | 256 | 73 | 623 | 443 |

The liabilities to banks have a remaining term of up to seven years. The liabilities to associated companies comprise current VAT deriving from the existing fiscal unit, as well as overheads charged on. Other liabilities include the share component from the acquisition price of RDH. No liabilities secured by liens exist.

Notes to the income statement

Revenue of EUR 1,072 thousand arises from costs charged on within the Group.

Other operating income mainly includes income from the passing on of costs to subsidiaries in the amount of EUR 60 thousand and income of EUR 16 thousand from the reversal of provisions.

SMT Scharf AG does not have its own operating business. It is the management holding company for companies in SMT Scharf Group. During the fiscal year under review, the Managing Board of SMT Scharf AG consisted of Mr. Hans Joachim Theiss (Managing Board Chairman / CEO), Mr. Wolfgang Embert and Mr. Rolf Ferdinand Oberhaus (until March 12, 2018). In addition to the two members of the Managing Board, only two other employment contracts exist, as in the previous year.

Other disclosures

The members of the Supervisory Board of SMT Scharf AG during the fiscal year under review comprised:

Period from January 1 to December 31, 2018:

| | | | |
|--|-------|---|--|
| Prof. Dr. Louis Velthuis, (Chairman) | Mainz | Professor of Controlling at the Johannes Gutenberg University of Mainz, Germany | Intershop Communications AG, member of the Supervisory Board |
| Dr. Dipl.-Ing. Dirk Vorsteher, (Deputy Chairman) | Werne | Management consultant | (no positions held at other companies) |
| Dipl. Volkswirtin Dorothea Gattineau, Herdecke | | Business executive | (no positions held at other companies) |

The Supervisory Board members receive fixed and variable remuneration for each fiscal year plus reimbursement of their out-of-pocket expenses, as well as meeting fees of EUR 1 thousand per Supervisory Board meeting, with the Supervisory Board Chair receiving twice the meeting fee per meeting. The fixed remuneration totals EUR 18 thousand, and the Chair receives twice this amount. In addition, each member of the Supervisory Board receives variable compensation in the form of a share in the consolidated net profit, calculated as follows: the annual performance-related compensation corresponds to an amount calculated by multiplying a bonus factor of 0.4 % (or 0.8 % for the Supervisory Board Chair) by the residual profit. The consolidated net profit of the SMT Scharf Group less interest on equity is regarded as the residual profit, whereby the interest rate corresponds to the applicable base interest rate plus 2 percentage points. The consolidated result is determined on the basis of the IFRS consolidated financial statements for the financial year in question, which have been audited by the auditor and approved by the Supervisory Board. If a member of the Supervisory Board can prove on the day before the Annual General Meeting that approves the appropriation of profits that he or she holds shares in the company cumulatively in the amount of one third (the purchase price being the decisive factor to this extent) of the respective fixed remuneration per year of his or her membership in the Supervisory Board, the bonus factor for the (basic) member of the Supervisory Board providing proof of investment increases to 0.8 % and for the Supervisory Board Chair to 1.6 %. The variable remuneration amounts to a maximum of EUR 9 thousand (without personal investment) or EUR 12 thousand (with personal investment) per ordinary member of the Supervisory Board and EUR 18 thousand (without personal investment) or EUR 24 thousand (with personal investment) for the Supervisory Board Chair. Remuneration is paid pro rata if members leave the Supervisory Board during the course of the fiscal year. The following remuneration was recognised as expenses for the 2018 fiscal year:

| EUR thousand | Velthuis | Vorsteher | Gattineau |
|-----------------------|----------|-----------|-----------|
| Fixed remuneration | 36 | 18 | 18 |
| Variable remuneration | 24 | 12 | 12 |
| Meeting fees | 10 | 5 | 5 |
| Total | 70 | 35 | 35 |

No remuneration exists for former members of the Supervisory Board or their surviving dependents. No advances, loans, or contingent liabilities exist in favour of members of the Supervisory Board. Prof. Dr. Louis Velthuis, Chairman of the Supervisory Board, held a total of

1,750 shares (previous year: 0 shares) in the company as of December 31, 2018. Dr. Vorsteher 900 shares (previous year 0 shares) and Ms. Gattineau 410 shares (previous year 0 shares).

Managing Board

During the fiscal year under review, the Managing Board of SMT Scharf AG consisted of Mr. Hans Joachim Theiss (Managing Board Chairman / CEO), Mr. Wolfgang Embert and Mr. Rolf Ferdinand Oberhaus (until March 12, 2018).

Managing Board members receive remuneration comprising a fixed basic annual salary and an annual performance-related bonus, plus reimbursement of their out-of-pocket expenses. Pension commitments of EUR 213 thousand exist for former Managing Board members. Pension commitments of EUR 34 thousand exist for current Managing Board members. The bonus for a fiscal year is set and becomes due in the following fiscal year in each case; a related provision is formed at the end of the fiscal year.

The following remuneration was recognised in the reporting year:

| EUR thousand | Theiss | | | Embert | | | Oberhaus | | |
|--|--------|-------------|-------------|--------|-------------|-------------|----------|-------------|-------------|
| | 2018 | Min 2018 | Max 2018 | 2018 | Min 2018 | Max 2018 | 2018 | Min 2018 | Max 2018 |
| a) Non-performance-related remuneration | 268 | 268 | 268 | 201 | 201 | 201 | 173 | 173 | 173 |
| b) Performance-related remuneration 2018 | 172 | 0 | 252 | 119 | 0 | 189 | 119 | 0 | 189 |
| Total remuneration (a+b) | 440 | 268 | 520 | 320 | 201 | 390 | 292 | 173 | 362 |
| Payment from performance-related remuneration 2017 | 165 | | | 104 | | | 104 | | |

Share-based compensation exists for all members of the Managing Board of SMT Scharf AG. This scheme entails paying a contractually agreed bonus amount for each annual EUR 1 increase in the share price. As of the fiscal year-end, this is included in the provision, but has not yet been paid out to the Managing Board members. The figures in the table for basic salary, additional benefits and part of the bonus that is based on EBIT and sales revenue target attainment tally in terms of the provisioning and accrual amounts. As of December 31, 2018, Hans Joachim Theiss, Management Board Chairman (CEO), held a total of 10,000 shares, and Wolfgang Embert 1,000 shares.

The remuneration of former members of the Managing Board or their surviving dependants in the year under review includes pensions and the remuneration of Mr. Oberhaus from March 2018. No advances, loans or contingent liabilities exist in favour of members of the Managing Board.

The company has assumed secondary liability to banks for EUR 11.6 million of its subsidiaries' credit lines. The Managing Board gauges the risk of utilisation due to the subsidiaries' credit standing as low.

Other financial obligations arise from lease and rental contracts in the following amount:

| | 31/12/2018 | 31/12/2017 |
|--------------|-------------------|-------------------|
| up to 1 year | 55 | 34 |
| 1 – 5 years | 72 | 15 |

Information about the independent auditor is presented in the consolidated financial statements of SMT Scharf AG. For this reason, on the basis of the group exempting clause pursuant to Section 285 Number 17 of the German Commercial Code (HGB), the company refrains from publishing this information here. Tax consulting services rendered by the auditor are largely accounted for by tax declaration services as well as by other tax consulting services.

Along with SMT Scharf AG, the consolidated financial statements include all subsidiaries over which it exercises control:

| | Interest | Equity (IFRS) 31/12/2018 | Profit/loss (IFRS) 2018 |
|---|-----------------|---|------------------------------------|
| SMT Scharf GmbH, Hamm, Germany | 100 % **** | 23,735 | 3,870 |
| SMT Scharf Saar GmbH i.L, Neunkirchen, Germany (liquidation completed) | 100 % | 0 | -36 |
| Nowilan GmbH, Dinslaken, Germany | 100 % **** | 147 | 1 |
| SMT Scharf Polska Sp. z o. o., Tychy, Poland | 100 % | 6,388 | 1,562 |
| SMT Scharf Africa (Pty.) Ltd., Germiston, South Africa | 100 % | 4,037 | 819 |
| TOW SMT Scharf Ukraina, Kiev, Ukraine | 100 % | 0 | 112 |
| SMT Scharf Südamerica SpA, Santiago, Chile | 100 % | -137 | -167 |
| RDH Scharf (since February 6, 2018), Alban, Ontario, Canada | 100 % | 4,711 | -603 |
| OOO SMT Scharf, Novokuznetsk, Russian Federation | 100 % * | 6,810 | 2,224 |
| OOO SMT Scharf Service, Novokuznetsk, Russian Federation | 100 % *** | 148 | 114 |
| Scharf Mining Machinery (Beijing) Co., Ltd., Beijing, China | 100 % ** | 2,355 | -355 |
| Scharf Mining Machinery (Xuzhou) Ltd, Xuzhou, China | 100 % | 3,392 | -99 |

* of which 1.25 % indirectly through SMT Scharf GmbH

** indirectly through SMT Scharf GmbH

*** indirectly through OOO SMT Scharf

**** Exemption in accordance with Section 264 (3) of the German Commercial Code (HGB)

The main operating activity of all subsidiaries is the production, repair and marketing of machinery and equipment of any type, and trading with such assets.

With effect as of February 6, 2018, SMT Scharf AG acquired 100 percent of the shares in RDH Mining Equipment, based in Alban, Canada. The purchase price amounts to around CAD 8.0 million (corresponding to approximately EUR 5.17 million). It was paid in cash in the amount of CAD 7.0 million (EUR 4.58 million). The remaining amount will be paid in SMT Scharf AG

treasury shares three years after the transfer date. The relevant price per share (in CAD) has already been determined. Warranty claims arising from the purchase agreement up to the due date of this purchase price component would reduce the value of the purchase price obligation and thereby also the number of capital shares to be issued. According to the current state of knowledge, a maximum of 46,446 shares would have to be issued. With the acquisition, a negative cash and cash equivalents position (overdraft facility) of CAD 0.9 million (equivalent to EUR 0.6 million) was assumed.

A request was submitted for the company SMT Scharf Saar GmbH i.L., Neunkirchen, to be removed from the register at the end of the liquidation period. This was implemented on July 17, 2018. As a consequence, the company will no longer form part of the Group in the future.

Pursuant to Section 161 of the German Stock Corporation Act (AktG), SMT Scharf AG is required as a listed public stock corporation to state the extent to which it complies with recommendations of the "German Corporate Governance Code Government Commission". The Managing and Supervisory boards issued this statement on December 3, 2018. It has been made available to shareholders at www.smtscharf.com.

Events after the balance sheet date

SMT Scharf AG examines investment in electronics specialist ser elektronik

SMT Scharf AG is at an advanced stage of negotiations regarding an investment in ser elektronik GmbH based in Möhnesee. With this investment, SMT Scharf is consistently pursuing its corporate strategy and expanding its portfolio to include valuable expertise in the electronics and controls area. SMT Scharf has been working with the electronics specialist for many years. ser elektronik develops customer-specific electronic controls and components. The systems, which are integrated into SMT Scharf's transport solutions for coal and non-coal mining, are manufactured in-house. Automation and data management are becoming increasingly important in underground mining. The acquisition of ser elektronik would help to strengthen SMT Scharf's in-house expertise in this area and align its transport systems to the growing requirements of underground mining.

Hamm, March 27, 2019

The Managing Board

Hans Joachim Theiss

Wolfgang Embert

Responsibility statement

We assure that, to the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements of SMT Scharf AG as of December 31, 2018, provide a true and fair view of the company's financial position and performance, and the management report for the 2018 fiscal year presents the company's business including its results and the Group's position such as to provide a true and fair view, and describes the major opportunities and risks pertaining to the company's anticipated growth and development.

Hamm, March 27, 2019

The Managing Board

Hans Joachim Theiss

Wolfgang Embert

Certificate of the independent auditor

to SMT Scharf AG, Hamm

CERTIFICATE CONCERNING THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT REPORT

Short-form audit opinions

We have audited the annual financial statements of SMT Scharf AG, comprising the balance sheet as of December 31, 2018, and the income statement for the fiscal year from January 1 to December 31, 2018, and the notes to the financial statements, together with a description of the accounting policies applied. We have also audited the management report of SMT Scharf AG for the fiscal year from January 1 to December 31, 2018. In accordance with German statutory regulations, we have not audited the content of the parts of the management report mentioned in the annex.

In our assessment, and based on the knowledge gained from the audit

- the accompanying annual financial statements comply in all material respects with the requirements of German commercial law applicable to corporations and give a true and fair view of the net assets and financial position of the company as of December 31, 2018, and of its results of operations for the fiscal year from January 1 to December 31, 2018, in accordance with German principles of proper accounting and comply with German principles of proper accounting; and
- the attached management report provides a suitable understanding of the company's position. In all material respects, this management report is consistent with the financial statements, complies with German legal requirements and suitably presents the opportunities and risks of future development. Our audit opinion on the management report does not extend to the contents of the components of the management report listed in the annex.

Pursuant to Section 322 (3) Clause 1 HGB, we declare that our audit has not led to any objections to the correctness of the financial statements and the management report.

Basis for the audit opinions

We conducted our audit of the financial statements and the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 and German generally accepted standards for the audit of financial statements as promulgated by the Institute of Public Auditors in Germany (Institut der Wirtschaftsprüfer [IDW]). Our responsibility under these rules and principles is further described in the section "Auditor's responsibility for the audit of the financial statements and the management report" of our audit opinion. We are independent of the company in accordance with European law and German commercial and professional regulations and have fulfilled our other German professional obligations in accordance with these requirements. In addition, we declare pursuant to Article 10 (2) (f) EU Audit Regulation No. 537/2014 that we have not provided any prohibited non-audit services pursuant to Article 5 (1) EU Audit Regulation No. 537/2014. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the financial statements and the management report.

Particularly important audit issues in the audit of the financial statements

Those matters of particular importance in our audit are those matters which, in our dutiful judgement, were most significant in our audit of the financial statements for the fiscal year from January 1 to December 31, 2018. These matters have been considered in connection with our audit of the financial statements as a whole and in the determination of our audit opinion in relation to them; we do not express a separate opinion on these matters.

The recoverability of investments in affiliated companies

For the accounting and valuation policies applied, please refer to the notes to the financial statements in the section "Accounting and valuation policies". Information about the subsidiaries can be found in the notes to the financial statements, section "Information about subsidiaries".

The risk for the financial statements

The interests in affiliated companies represent a material item in the financial statements and amount to EUR 19.2 million as of December 31, 2018 (December 31, 2017: EUR 13.7 million). This corresponds to 57 % of total assets (previous year: 58 %).

The assessment of the recoverability of interests in affiliated companies is based primarily on forecasts and an assessment of the future earnings power of the companies in terms of discounted cash flows (DCF).

The assessment of recoverability is subject to particular discretion and depends on assumptions made by the legal representatives regarding the valuation parameters. The risk exists that an insufficient level of value adjustments has been formed for the interests held.

Our approach to the audit

As part of our audit of the financial statements, we reviewed the valuation of our investments in a structured order. Based on the overall portfolio, we conducted a risk analysis to identify the investment approaches that were subjected to an in-depth examination. Our audit procedures included, in particular, an examination of the completeness, appropriateness and plausibility of the underlying planning assumptions as well as an assessment of the further assessments made by the legal representatives. We have reviewed investments that have already been written down with regard to a possible requirement to reinstate original values. We have compared the procedure with the accounting and valuation policies applied by the company.

Our conclusions

The company applies an appropriate method for the valuation of investments. The underlying assumptions and judgements are generally balanced.

Other information

The legal representatives are responsible for the other information. Other information includes

- the corporate governance statement contained in the management report,
- the assurance in accordance with Section 264 (2) Clause 3 HGB for the annual financial statements and
- the assurance in accordance with Section 289 (1) Clause 5 HGB on the management report.

Our audit opinions on the financial statements and the management report do not extend to the other information and, accordingly, we do not express an opinion or any other form of audit conclusion in relation to them.

In connection with our audit, we have the responsibility to read the other information and to assess whether the other information is free of material misstatement

- exhibit material discrepancies with the financial statements, with the management report or with the knowledge obtained during the audit, or
- appear to be presented incorrectly in some other way.

Responsibility of the legal representatives and the Supervisory Board for the financial statements and the management report

The legal representatives are responsible for the preparation of the annual financial statements in accordance with German principles of proper accounting and in all material respects comply with the requirements of German commercial law applicable to corporations, and for the presentation of a true and fair view of the net assets, financial position and results of operations of the company in accordance with German principles of proper accounting. In addition, the legal representatives are responsible for internal controls relevant to the preparation of financial statements in accordance with German generally accepted accounting principles that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, the legal representatives are responsible for assessing the company's ability to continue as a going concern. They are also responsible for disclosing matters relating to the continuing operation of the entity, if relevant. In addition, they are responsible for applying accounting principles based on the going concern assumption, except to the extent that this is contrary to fact or law.

Moreover, the legal representatives are responsible for the preparation of the management report, which as a whole provides a suitable view of the company's position and is consistent with the financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks pertaining to future development. In addition, the legal representatives are responsible for the precautions and measures (systems) they have deemed necessary to permit the preparation of a management report in accordance with the applicable German legal provisions and to provide sufficient and suitable evidence for the statements in the management report.

The Supervisory Board is responsible for monitoring the financial accounting process for preparing the financial statements and the management report.

Auditor's responsibility for the audit of the financial statements and the management report

Our objective is to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether intentional or unintentional, and whether the management report as a whole provides a suitable view of the company's position and is consistent, in all material respects, with the financial statements and the findings of our audit, complies with German legal requirements and suitably presents the opportunities and risks of future development, and to express an opinion that includes our audit opinion on the financial statements and the management report.

Sufficient assurance is a high level of assurance, but not a guarantee, that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 as well as German generally accepted standards for the audit of financial statements as promulgated by the Institut der Wirtschaftsprüfer (IDW) will always reveal a material misstatement. Misstatements can arise from violations or inaccuracies and are regarded as material if it could reasonably be expected that they will individually or collectively influence the economic decisions of users made on the basis of these financial statements and the management report.

During the audit, we exercise our professional judgement and maintain a critical attitude. In addition

- we identify and evaluate the risks of material misstatement, whether intentional or unintentional, in the financial statements and the management report, plan and perform the audit procedures in response to those risks, and obtain sufficient and appropriate audit evidence to form the basis of our audit opinions. The risk that material misstatements will not be detected is greater for violations than for inaccuracies, as violations may involve fraudulent collusion, falsification, intentional incompleteness, misrepresentation, or the overriding of internal controls.
- we gain an understanding of the internal control system relevant to the audit of the financial statements and the precautions and measures relevant to the audit of the management report in order to plan audit procedures that are appropriate in the circumstances, but not with the aim of expressing an opinion on the effectiveness of such systems.
- we assess the appropriateness of accounting and valuation policies applied by the management and the reasonableness of accounting estimates made by management, and related disclosures.
- we draw conclusions about the appropriateness of the going-concern accounting policy applied by the legal representatives and, on the basis of the audit evidence obtained, whether any material uncertainty exists in connection with events or circumstances that could cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to express an opinion on the related financial statements and on the management report or, if the information is inappropriate, to modify our respective audit opinion. We draw our conclusions on the basis of the audit evidence obtained up to the date of our audit opinion. Future events or circumstances can, however, result in the company no longer being able to continue its business activities.
- we express an opinion on the overall presentation, the structure and the content of the financial statements, including the disclosures, as well as on whether the annual financial statements present the underlying transactions and events in such a way that the annual

financial statements give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German principles of proper accounting.

- we assess the management report's consistency with the financial statements, its legal conformity, and the view it conveys of the company's position.
- we perform audit procedures on the forward-looking statements made by management in the management report. On the basis of sufficient and suitable audit evidence, we verify, in particular, the significant assumptions on which the legal representatives' forward-looking statements are based and assess the proper derivation of the forward-looking statements from such assumptions. We do not express an independent opinion on the forward-looking statements or the underlying assumptions. The significant unavoidable risk exists that future events will differ materially from the forward-looking statements.

Among other matters, we discuss the planned scope and timing of the audit and significant findings of the audit with those individuals responsible for monitoring, including any deficiencies in the internal control system that we identify during our audit.

We make a declaration to those individuals responsible for monitoring that we have complied with the relevant independence requirements and discuss with them all relationships and other matters that are reasonably believed to affect our independence and the safeguards that have been put in place to that effect.

From among the matters discussed with those individuals responsible for monitoring, we identify those matters that were most significant in the audit of the financial statements for the current reporting period and are consequently the most important matters for the audit. We describe these matters in the auditor's report unless required to do so by law or other regulations.

Other statutory and other legal requirements

Other information pursuant to Article 10 EU Audit Regulation No. 537/2014

We were appointed as auditors of the financial statements by the Annual General Meeting on May 23, 2018. We were engaged by the Supervisory Board on October 18, 2018. We have been the auditors of the financial statements of SMT Scharf AG on an uninterrupted basis since the 2016 fiscal year.

We declare that the audit opinions contained in this opinion are consistent with the additional report to the Audit Committee pursuant to Article 11 EU Audit Regulation No. 537/2014 (Auditor's Report).

Certified Public Auditor

The certified public auditor responsible for the audit is Stefan Schumacher.

Bielefeld, March 28, 2019

Rödl & Partner GmbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

[signed] Stramiters [signed] Schumacher
Certified Public Auditor Certified Public Auditor

**ANNEX TO THE AUDITORS REPORT: COMPONENTS OF THE MANAGEMENT REPORT
NOT AUDITED FOR CONTENT**

We have not audited the content of the following components of the management report:

- the corporate governance declaration contained in the management report